



LETTER OF COMMENT NO. 7

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**From:** Todd M Harris [tmharris@ix.netcom.com]  
**Sent:** Friday, March 20, 2009 10:37 AM  
**To:** Director - FASB  
**Subject:** Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b.  
**Attachments:** FASB Comments.doc

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EarthLink Revolves Around You.

3/20/2009

March 19, 2009

Written Comments regarding:

Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b.

I think it important to acknowledge the fact that level one inputs as used in the determination of fair value measurement still retain value and have helped in creating *more consistency between reporting entities (especially the investment portfolios in the Banking industry)*. However I do not believe anyone; including the FASB Board, ever anticipated such dislocated markets; markets where willing sellers and buyers have been replaced by the desperate and vultures. While the concerns expressed by Messrs. Linsmeier and Siegel carry theoretical merit, those concerns fail to acknowledge that level one inputs are no longer the best representation of fair value, in this particular financial market; at this particular time in history. Although this proposed FSP is not intended to deal with the calculation of fair value directly; it is none the less, important to understand that these drops in fair value (increased dramatically by the dislocated markets) have made a bad economic situation worse (than it really needed to be). In other words the cure has been worse than the disease in this particular market; at this particular time. I commend the majority of the FASB Board in recognizing this fact and in turn realizing the guidance for OTTI needed to evolve as its impact under different economic scenarios is now better understood.

Comments on the following questions:

1. Separate presentation does provide value. However only the credit component (recognized amount) should be included in the statement of earnings. To present a Net Impairment of loss as presented on page 14 with total impairment less non credit related impairment would only serve to confuse the average investor. Instead an expansion of the template provided in appendix A of the existing FSP FAS 115-1 and FAS 124-1 would enable the preparer to provide all the relevant information in one section. It could be expanded to provide additional tables; still sorted by security type separated between the credit related impairment, which when totaled would be equivalent to the charge on the statement of earnings and the non-credit related impairment which when totaled, would be the difference between the fair value and carry value. Add to this management discussion and analysis that describes methods used in determining the different types of impairment and the average investor will get a full understanding of what created the numbers reported on the earnings statement and balance sheet.
2. The methodologies described in paragraphs 12-16 of FAS 114 seem to be an appropriate measure of fair value as any cash flow estimate would need to take into account additional losses not contemplated at the time of purchase and would be representative of what a potential buyer might expect to receive *in terms of cash flow*. As stated above I agree with recognizing the credit component in income as it relates directly to reduced cash flow (a change in value as a result). However the recognition of non-credit related impairment in other comprehensive income would not provide value to the average reader

of financial statements. Most investors (except for accounting professionals and institutional investors) do not understand other comprehensive income or what it is attempting to present. Instead, in order to provide the best understanding of the different components of OTTI under the proposed FSB I have repeated again some of my comments from above. An expansion of the template provided in appendix A of the existing FSP FAS 115-1 and FAS 124-1 would enable the preparer to provide all the relevant information in one section. It could be expanded to provide additional tables, still sorted by security type separated between the credit related impairment, which when totaled would be equivalent to the charge on the statement of earnings and the non-credit related impairment which when totaled, would be the difference between the fair value and carry value. Add to this management discussion and analysis that describes methods used in determining the different types of impairment and the average investor will get a full understanding of what created the numbers reported on the earnings statement and balance sheet.

3. The proposed language, “..no intent to sell & more likely than not that it will not have to sell the security before recovery..” is more direct in what it is asking management to attest too and less open to a broader interpretation when compared to the previous language. I am neither for nor against this applying to equity securities. I cannot opine if the language change will increase or decrease OTTI, but the change does set a clearer path to follow and is less open to broad interpretation.
4. Again I see no value to the average reader of financial statements by incorporating OTTI related to HTM securities into other comprehensive income as most investors (except for accounting professionals and institutional investors) do not understand other comprehensive income or what it is attempting to present. The standard template provided in appendix A of the existing FSP FAS 115-1 and FAS 124-1 would enable the preparer to provide all the relevant information in one section and is as equally relevant to AFS securities as it is to HTM securities. For reference I have copied my previous comments. An expansion of the template provided in appendix A of the existing FSP FAS 115-1 and FAS 124-1 would enable the preparer to provide all the relevant information in one section. It could be expanded to provide additional tables, still sorted by security type separated between credit related impairment, which when totaled would be equivalent to the HTM portion of the charge on the statement of earnings. Add to this management discussion and analysis that describes methods used in determining the different types of impairment and the average investor will get a full understanding of what created the numbers reported on the earnings statement and balance sheet.
5. I believe the effective date is operational, as many institutions have performed this analysis in many cases. However given the FASB Boards recognition that previous OTTI guidance was not appropriate in a dislocated market I suggest the Board consider a look back period or an initial adoption leveling where company's that had previously recognized losses under the old

guidance would be given the opportunity to either confirm or modify previously recognized losses.

Thank you for the opportunity to comment

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